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Tax Forum

Doris L. Bosworth

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TAX FORUM

DORIS L. BOSWORTH, CPA, Editor

TCMP EXAMINATIONS

Taxpayers are presently encountering a new type of examination of their returns by the Treasury Department. Such examinations are being conducted in accordance with the rules established for the Taxpayer Compliance Measurement Program. As the audit procedure differs radically from any encountered in the past, it would be wise to consider some of the problems emanating therefrom.

At the outset it must be remembered that the selection of taxpayers for this rather dubious honor is on a random sampling basis. This means, of course, that it is impossible to anticipate which of your clients will be exposed to the experience. The first indication of the change in audit procedure is to be found in the letter from the Treasury Department notifying the taxpayer of the impending examination. The letter will bear the legend "TCMP."

Stated in its simplest terms, the TCMP audit differs from the usual examination in that *every* item of income and expense on the return must be completely verified. An in-depth audit of this type embraces the production of Forms 1099 for all income that is properly reportable on this form, such as dividends, interest and rents. Where the amount of such income precludes the necessity of filing Form 1099, as for example dividends or interest of less than \$10, brokerage slips or statements showing the number of shares held and savings bank passbooks will, in all probability, have to be exhibited. If the taxpayer holds a mortgage on another individual's property or a note that arose other than in the course of a trade or business, the underlying document will have to be produced to verify the propriety of the interest reported.

Similarly, cancelled checks and/or receipts will have to be submitted in substantiation of every deduction. One hurdle to be overcome here is the sales tax deduction, which is usually an estimated figure. If the figure is challenged, one solution to the problem, albeit a cumbersome one, is to produce a tape of cancelled checks for the taxable year, drawn to the order of individuals or firms whose goods and services involve sales tax payments.

Perhaps the most significant deviation from the standard type of examination occurs within the area of "flow through" income. Compliance requirements are considerably expand-

ed, and it is here that difficulties may arise. The ordinary forms of substantiation are inadequate, that is, a letter from the fiduciary in the case of estate or trust income, a copy of Form 1065 for partnership income, or Forms 1120S and Schedule PH of Form 1120 in the case of Subchapter S and personal holding company income. Rather, it is mandatory that the Revenue Agent request collateral examinations of the tax entities generating such income, even in cases where the amounts are nominal in relation to the picture as a whole. Within the realm of personal experience, one taxpayer with income from an estate of less than one-half of 1% of adjusted gross income, with a letter from the fiduciary, and with complete substantiation of every other item on the return had to await the collateral examination of the estate's income tax return in another district. Disregarding the delay in closing the case, there was the problem of the additional examination of a small estate in the process of administration that might otherwise never have occurred.

A somewhat doubtful advantage is realized in instances where the return primarily selected for examination, and those being collaterally examined, have been prepared by the same practitioner. Under the circumstances, the audit can proceed without interruption, but it is a costly and time-consuming engagement. It is not sufficient for the agent to survey the collateral returns. He must examine them in detail and render a report on each entity. On the other hand, if the collateral examinations must be conducted with various other practitioners and, in a great many instances, in the offices of other District Directors, it will be some time before the agent is in a position to finalize his report. Admittedly, requests for collateral examinations on a TCMP audit are given priority in the various District offices, but their scheduling is still subject to the prevailing exigencies in that local office. In any event, the inexorable pattern of standard operating procedure must be recognized and accepted.

It is suggested that whenever a TCMP audit is scheduled, the tax practitioner should discuss the matter with the taxpayer before the audit begins. The approach should be the same as if this were a "first audit" experience. Such a discussion will have two-fold results.

The taxpayer will realize that the exhaustive treatment accorded his return is in no way a reflection upon the integrity of his reporting, but is the product of a statistical sampling process. Equally important, he will be apprised of the time demands on the practitioner in this type of examination and the necessity for an increased fee.

The adoption of a proper attitude is as important in the case of the practitioner as it is for the client—even more important, as the brunt of the detailed work falls on his shoulders. It is advisable to contact the Revenue Agent in advance of the actual conduct of the examination and to discuss the documentation required, item by item. The old adage concerning patience being a virtue will never be exercised more completely than in these circumstances. If, as in the case of one recent examination, a request is made for birth certificates in substantiation of credit for dependents, note the requirement and set about obtaining them. In this way, when you have progressed to the examination stage, all of the material will be available for inspection, and the matter can be disposed of as expeditiously as possible.

D.L.B.

**ARE WOMEN CPA CANDIDATES KEEP-
ING UP WITH MEN CPA CANDIDATES?**

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	<i>Candidates</i>	
	<i>Women</i>	<i>Men</i>
SAT Mathematical		
Median	574	550
Percentile	81	61
Number	46	2,486
AICPA Orientation		
Median percentile	71	65
Number	15	641
AICPA Level II Achievement		
Median percentile	82	70
Number	42	2,105

Not all candidates took these tests; and the small number of women candidates taking them may cast some doubt on the statistical validity of the data for them. The Scholastic Aptitude Test rankings are based on all students taking the Tests who entered college. The Orientation and Achievement Test rankings are based on college students who took the Test in their senior year.

**Are Women CPA Candidates Keeping up
with Men CPA Candidates?**

The answer to the question is not clear-cut. On the one hand, while the percentages of women candidates with college education and with postgraduate study are greater than the percentages for 1948 candidates, women candidates appear to have lagged behind in the trend toward obtaining more college degrees and doing more postgraduate work. On the other hand, the data for college graduates indicate that women candidates have higher academic abilities than the men.

**THE ACCOUNTANT LOOKS AT
A CREDIT UNION**

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board of directors to authorize refunds of interest to members of record as of December 31 in proportion to the amount of interest paid by them during the year. Ordinarily, the amount of interest refund due each borrower should be a credit to his share account.

After determining the amount available for dividends, it is necessary to determine for each member the total number of full share dollars upon which a dividend can be paid. Federal Credit Unions are also required to retain as part of their records a Dividend Record Form which itemizes the account number, name, full-share dollars, amount of dividend and method of payment for each member.

The property, franchises, capital, reserves, surpluses, funds, and income of Federal Credit Unions are exempt from all Federal and state income taxes. Credit unions must file Forms 1096 and 1099; however, in lieu of the filing of a separate annual return, Form 990, by each of the individual Federal Credit Unions, a group information return, Form 990, may be filed by the Bureau of Federal Credit Unions covering all of the exempt Federal Credit Unions under its supervision, according to Revenue Ruling 60-169, 1960-1 CB 62.

Credit unions are big business. At the end of 1960 they had total savings of \$4,944,593, 818, loans outstanding of \$4,329,557,990, reserves of \$267,340,766 and total assets of \$5,606,189,069. And they are good business, as proved by the fact that less than one-fifth of one per cent of their loans prove uncollectible. They have been formally recognized as "banking institutions" and are included among financial institutions that are considered important in the economy during a national emergency and in the continuing life of our country.